

1 Allowance for Loan Repurchase Losses as of December 31, 2005 at \$7,000,000.
 2 The 2005 Form 10-K purported to describe the Company's "Critical Accounting
 3 Policies" including New Century's methods for calculating "Residual Interests in
 4 Securitizations" and "Allowance for Repurchase Losses:"

5 *Residual Interests and Securitizations Structured as Sales*

6 [T]he Residuals described above are a significant asset of the
 7 Company. In determining the value of the Residuals, the Company
 8 estimates the future rate of prepayments, prepayment penalties that it
 9 will receive, delinquencies, defaults and default loss severity as they
 10 affect the amount and timing of estimated cash flows. . . . These
 11 estimates are based on historical loss data for the loans, the specific
 12 characteristics of the loans, and the general economic environment. . .
 13 . The Company performs an evaluation of the Residuals quarterly,
 14 taking into consideration trends in actual cash flow performance,
 15 industry and economic developments, as well as other relevant
 16 factors.

17
 18 * * *

19 *Allowance for Repurchase Losses*

20 Generally, repurchases are required within 90 days from the
 21 date the loans are sold. Occasionally, we may repurchase loans after
 22 90 days have elapsed. . . . As of December 31, 2005 and December
 23 31, 2004, the repurchase allowance totaled \$7.0 million and \$6.3
 24 million, respectively. Approximately \$10.7 billion and \$8.3 billion of
 25 loans were subject to repurchase, representing loans sold during the
 26 fourth quarter of 2005 and the fourth quarter of 2004, respectively.
 27 We believe the allowance for repurchase losses is adequate as of
 28 December 31, 2005 and 2004. [Emphasis added.]

266. The 2005 Form 10-K provided the following information regarding New Century's internal controls and procedures:

As of December 31, 2005, the end of our fourth quarter, our management, including our Chief Executive Officer, Vice Chairman-Finance, Chief Financial Officer and President and Chief Operating Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our Chief Executive Officer, Vice Chairman-Finance, Chief Financial Officer and President and Chief Operating Officer concluded, as of December 31, 2005, that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

* * *

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter to which this report relates that have materially affected, or are likely to materially affect, our internal control over financial reporting. [Emphasis added.]

267. Accompanying the 2005 Form 10-K as exhibits were certifications signed by Defendants Cole, Dodge, Morrice and Gotschall in the form set forth in paragraph 248 above.

1 268. The 2005 Form 10-K contained a “Report of Independent Registered
2 Public Accounting Firm” from Defendant KPMG dated March 15, 2006 which
3 stated:

4 We have audited the accompanying consolidated balance sheets of
5 New Century Financial Corporation and subsidiaries as of
6 December 31, 2005 and 2004, and the related consolidated statements
7 of income, comprehensive income, changes in stockholders’ equity,
8 and cash flows for each of the years in the three-year period ended
9 December 31, 2005. These consolidated financial statements are the
10 responsibility of the Company’s management. Our responsibility is to
11 express an opinion on these consolidated financial statements based
12 on our audits.

13
14 We conducted our audits in accordance with the standards of the
15 Public Company Accounting Oversight Board (United States). Those
16 standards require that we plan and perform the audit to obtain
17 reasonable assurance about whether the financial statements are free
18 of material misstatement. An audit includes examining, on a test
19 basis, evidence supporting the amounts and disclosures in the
20 financial statements. An audit also includes assessing the accounting
21 principles used and significant estimates made by management, as
22 well as evaluating the overall financial statement presentation. We
23 believe that our audits provide a reasonable basis for our opinion.

24
25 In our opinion, the consolidated financial statements referred to above
26 present fairly, in all material respects, the financial position of New
27 Century Financial Corporation and subsidiaries as of December 31,
28 2005 and 2004, and the results of their operations and their cash flows

1 for each of the years in the three-year period ended December 31,
2 2005, in conformity with U.S. generally accepted accounting
3 principles.

4
5 We also have audited, in accordance with the standards of the Public
6 Company Accounting Oversight Board (United States), the
7 effectiveness of the Company's internal control over financial
8 reporting as of December 31, 2005, based on criteria established in
9 Internal Control — Integrated Framework issued by the Committee of
10 Sponsoring Organizations of the Treadway Commission (COSO), and
11 our report dated March 15, 2006 expressed an unqualified opinion on
12 management's assessment of, and the effective operation of, internal
13 control over financial reporting. [Emphasis added.]

14 269. The 2005 Form 10-K also contained a "Report of Independent
15 Registered Public Accounting Firm" on internal controls from Defendant KPMG
16 dated March 15, 2006 which stated:

17 We have audited management's assessment, included in the
18 accompanying *Management's Report on Internal Control Over*
19 *Financial Reporting*, that New Century Financial Corporation and
20 subsidiaries maintained effective internal control over financial
21 reporting as of December 31, 2005, based on criteria established in
22 Internal Control — Integrated Framework issued by the Committee of
23 Sponsoring Organizations of the Treadway Commission (COSO).
24 The Company's management is responsible for maintaining effective
25 internal control over financial reporting and for its assessment of the
26 effectiveness of internal control over financial reporting. Our
27 responsibility is to express an opinion on management's assessment
28

1 and an opinion on the effectiveness of the Company's internal control
2 over financial reporting based on our audit.

3
4 We conducted our audit in accordance with the standards of the Public
5 Company Accounting Oversight Board (United States). Those
6 standards require that we plan and perform the audit to obtain
7 reasonable assurance about whether effective internal control over
8 financial reporting was maintained in all material respects. Our audit
9 included obtaining an understanding of internal control over financial
10 reporting, evaluating management's assessment, testing and
11 evaluating the design and operating effectiveness of internal control,
12 and performing such other procedures as we considered necessary in
13 the circumstances. We believe that our audit provides a reasonable
14 basis for our opinion.

15
16 A company's internal control over financial reporting is a process
17 designed to provide reasonable assurance regarding the reliability of
18 financial reporting and the preparation of financial statements for
19 external purposes in accordance with generally accepted accounting
20 principles. A company's internal control over financial reporting
21 includes those policies and procedures that (1) pertain to the
22 maintenance of records that, in reasonable detail, accurately and fairly
23 reflect the transactions and dispositions of the assets of the company;
24 (2) provide reasonable assurance that transactions are recorded as
25 necessary to permit preparation of financial statements in accordance
26 with generally accepted accounting principles, and that receipts and
27 expenditures of the company are being made only in accordance with
28 authorizations of management and directors of the company; and

1 (3) provide reasonable assurance regarding prevention or timely
2 detection of unauthorized acquisition, use, or disposition of the
3 company's assets that could have a material effect on the financial
4 statements.

5
6 Because of its inherent limitations, internal control over financial
7 reporting may not prevent or detect misstatements. Also, projections
8 of any evaluation of effectiveness to future periods are subject to the
9 risk that controls may become inadequate because of changes in
10 conditions, or that the degree of compliance with the policies or
11 procedures may deteriorate.

12
13 In our opinion, management's assessment that New Century Financial
14 Corporation and subsidiaries maintained effective internal control
15 over financial reporting as of December 31, 2005, is fairly stated, in
16 all material respects, based on the COSO criteria. Also, in our
17 opinion, New Century Financial Corporation and subsidiaries
18 maintained, in all material respects, effective internal control over
19 financial reporting as of December 31, 2005, based on the COSO
20 criteria.

21
22 New Century Financial Corporation acquired certain assets and
23 assumed certain liabilities of RBC Mortgage Company during 2005,
24 and management excluded from its assessment of the effectiveness of
25 New Century Financial Corporation's internal control over financial
26 reporting as of December 31, 2005, RBC Mortgage Company's
27 internal control over financial reporting associated with total assets of
28 \$1.2 billion and total revenues of \$59.6 million included in the

(consolidated) financial statements of New Century Financial Corporation and subsidiaries as of and for the year ended December 31, 2005. Our audit of internal control over financial reporting of New Century Financial Corporation also excluded an evaluation of the internal control over financial reporting of RBC Mortgage Company.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of New Century Financial Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 15, 2006 expressed an unqualified opinion on those consolidated financial statements. [Emphasis added.]

270. KPMG gave its consent to the incorporation by reference of its unqualified audit opinion on New Century's 2005 financial statements and its opinion regarding management's assessment of internal controls in the registration statement for the Series B Preferred Stock offering.

271. New Century's first quarter 2006 Form 10-Q contained consolidated balance sheets and consolidated statements of earnings purporting to reflect the Company's financial performance and assets and liabilities for the three months ended March 31, 2006 in accordance with GAAP. The Form 10-Q stated:

The Company has prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q

1 and Rule 10-01 of Regulation S-X. Accordingly, they do not include
 2 all of the information and footnotes required by generally accepted
 3 accounting principles for complete financial statements. In the
 4 opinion of management, all adjustments (consisting of normal
 5 recurring accruals) considered necessary for a fair presentation have
 6 been included. [Emphasis added.]

7 272. The first quarter 2006 Form 10-Q reported New Century's Residual
 8 Interests as of March 31, 2006 at \$208,791,000 and Allowance for Loan
 9 Repurchase Losses as of March 31, 2006 at \$8,900,000. The first quarter 2006
 10 Form 10-Q purported to describe the Company's "Critical Accounting Policies"
 11 including New Century's methods for calculating "Residual Interests in
 12 Securitizations" and "Allowance for Repurchase Losses:"

13 *Residual Interests in Securitizations*

14 [T]he Residuals described above are a significant asset of the
 15 Company. In determining the value of the Residuals, the Company
 16 estimates the future rate of prepayments, prepayment penalties that we
 17 will receive, delinquencies, defaults and default loss severity as they
 18 affect the amount and timing of estimated cash flows. . . . The
 19 Company estimates prepayments by evaluating historical prepayment
 20 performance of our loans and the impact of current trends. . . . The
 21 Company performs an evaluation of the Residuals quarterly, taking
 22 into consideration trends in actual cash flow performance, industry
 23 and economic developments, as well as other relevant factors.

24 * * *

25 *Allowance for Repurchase Losses*

26 Generally, repurchases are required within 90 days from the
 27 date the loans are sold. Occasionally, we may repurchase loans after
 28 90 days have elapsed. . . . As of March 31, 2006 and December 31,

1 2005, the repurchase allowance totaled \$8.9 million and \$7.0 million,
2 respectively We believe the allowance for repurchase losses is
3 adequate as of March 31, 2006 and December 31, 2005. [Emphasis
4 added.]

5 273. The first quarter 2006 Form 10-Q provided the following information
6 regarding New Century's internal controls and procedures:

7 As of March 31, 2006, the end of our first quarter, our management,
8 including our Chief Executive Officer, Chief Financial Officer and
9 President and Chief Operating Officer, has evaluated the effectiveness
10 of our disclosure controls and procedures, as such term is defined in
11 Rule 13a-15(e) promulgated under the Securities Exchange Act of
12 1934, as amended. Based on that evaluation, our Chief Executive
13 Officer, Chief Financial Officer and President and Chief Operating
14 Officer concluded, as of March 31, 2006, that our disclosure controls
15 and procedures were effective to ensure that information required to
16 be disclosed by us in reports that we file or submit under the
17 Securities Exchange Act of 1934 is recorded, processed, summarized
18 and reported within the time periods specified in the Securities and
19 Exchange Commission rules and forms. There was no change in our
20 internal control over financial reporting during the quarter ended
21 March 31, 2006 that materially affected, or is reasonably likely to
22 materially affect, our internal control over financial reporting.
23 [Emphasis added.]

24 274. Accompanying the first quarter 2006 Form 10-Q as exhibits were
25 certifications signed by Defendants Cole, Dodge and Morrice in the form set forth
26 in paragraph 248 above.

27 275. New Century's second quarter 2006 Form 10-Q contained
28 consolidated balance sheets and consolidated statements of earnings purporting to

1 reflect the Company's financial performance and assets and liabilities for the three
2 months ended June 30, 2006 in accordance with GAAP. The Form 10-Q stated:

3 The Company has prepared the accompanying unaudited condensed
4 consolidated financial statements in accordance with accounting
5 principles generally accepted in the United States of America for
6 interim financial information and with the instructions to Form 10-Q
7 and Rule 10-01 of Regulation S-X. Accordingly, the statements do
8 not include all of the information and footnotes required by generally
9 accepted accounting principles for complete financial statements. In
10 the opinion of management, all adjustments (consisting of normal
11 recurring accruals) considered necessary for a fair presentation have
12 been included. [Emphasis added.]

13 276. The second quarter 2006 Form 10-Q reported New Century's Residual
14 Interests as of June 30, 2006 at \$209,335,000 and Allowance for Loan Repurchase
15 Losses as of June 30, 2006 at \$14,400,000. The second quarter 2006 Form 10-Q
16 purported to describe the Company's "Critical Accounting Policies" including New
17 Century's methods for calculating "Residual Interests in Securitizations" and
18 "Allowance for Repurchase Losses:"

19 *Residual Interests in Securitizations*

20 [T]he Residuals described above are a significant asset of the
21 Company. In determining the value of the Residuals, the Company
22 estimates the future rate of prepayments, prepayment penalties that we
23 will receive, delinquencies, defaults and default loss severity as they
24 affect the amount and timing of estimated cash flows. . . . The
25 Company bases these estimates on historical loss data for the loans,
26 the specific characteristics of the loans and the general economic
27 environment. . . . The Company performs an evaluation of the
28 Residuals quarterly, taking into consideration trends in actual cash

1 flow performance, industry and economic developments, as well as
2 other relevant factors.

3 * * *

4 *Allowance for Repurchase Losses*

5 Generally, repurchases are required within 90 days from the
6 date the loans are sold. Occasionally, we may repurchase loans after
7 90 days have elapsed. . . . As of June 30, 2006 and December 31,
8 2005, the repurchase allowance totaled \$14.4 million and \$7.0
9 million, respectively We believe the allowance for repurchase
10 losses is adequate as of June 30, 2006 and December 31, 2005.

11 [Emphasis added.]

12 277. The second quarter 2006 Form 10-Q provided the following
13 information regarding New Century's internal controls and procedures:

14 As of June 30, 2006, the end of our second quarter, our management,
15 including our Chief Executive Officer, Chief Financial Officer and
16 President and Chief Operating Officer, has evaluated the effectiveness
17 of our disclosure controls and procedures, as such term is defined in
18 Rule 13a-15(e) promulgated under the Securities Exchange Act of
19 1934, as amended. Based on that evaluation, our Chief Executive
20 Officer, Chief Financial Officer and President and Chief Operating
21 Officer concluded, as of June 30, 2006, that our disclosure controls
22 and procedures were effective to ensure that information required to
23 be disclosed by us in reports that we file or submit under the
24 Securities Exchange Act of 1934 is recorded, processed, summarized
25 and reported within the time periods specified in the Securities and
26 Exchange Commission rules and forms. There was no change in our
27 internal control over financial reporting during the quarter ended June
28 30, 2006 that materially affected, or is reasonably likely to materially

1 affect, our internal control over financial reporting. [Emphasis
2 added.]

3 278. Accompanying the second quarter 2006 Form 10-Q as exhibits were
4 certifications signed by Defendants Cole, Dodge and Morrice in the form set forth
5 in paragraph 248 above.

6 279. The above-referenced statements from New Century's Form 10-K for
7 the year-ended December 31, 2005 and Forms 10-Q for the three months-ended
8 March 31, 2006 and June 30, 2006, incorporated by reference into the Series B
9 Preferred Stock Registration Statement, were materially misstated and omitted to
10 state material facts required therein or necessary to make the statements contained
11 therein not misleading, at the time of the offering. At the time of the Series B
12 Preferred Stock offering, and contrary to the above-referenced statements, New
13 Century's financial statements for the year-ended December 31, 2005 and the
14 quarters-ended March 31 and June 30, 2006 were materially misstated and
15 presented in violation of GAAP, the Company's internal controls suffered from
16 significant deficiencies and material weaknesses and KPMG's audits of New
17 Century's financial statements and internal controls were not performed in
18 accordance with GAAS and the standards of the PCAOB.

19 280. As set forth in paragraph 72 above, New Century has now admitted
20 the need to restate the Company's previously-reported financial statements for the
21 first three quarters of 2006 (including the first two 2006 quarters incorporated by
22 reference into the Series B Preferred Stock offering) based on material violations
23 of GAAP in setting New Century's Allowance for Repurchase Losses reserve and
24 related material weaknesses in internal controls. As set forth in paragraph 73
25 above, New Century also has admitted errors in the Company's previously-filed
26 annual financial statements for its fiscal year-ended December 31, 2005, with
27 respect to both the accounting and reporting of loan repurchase losses and the
28 Company's valuation of Residual Interests and a "more likely than not" material

1 overstatement in the Company's previously-issued 2005 financial statements
2 (which also were incorporated by reference into the Series B Preferred Stock
3 offering). In addition, as set forth in paragraphs 66-119 and 191-96 above, facts
4 developed from Lead Counsel's investigation and set forth in the Examiner's
5 Report further demonstrate that the Company's financial statements incorporated
6 by reference into the Series B Preferred Stock offering were materially misstated in
7 violation of GAAP at the time of the offering and the Company's internal control
8 certifications, which were incorporated by reference into the Series B Preferred
9 Stock offering, were materially misstated at the time of the offering.

10 281. As set forth in paragraph 75 above, according to CW 1, New Century
11 had intentionally delayed payment of valid repurchase claims, causing a massive
12 backlog of repurchase claims, 80% of which, or hundreds of millions of dollars
13 worth, were 18 to 24 months old as of September 2006 – meaning that the backlog
14 went back to the 2005 first quarter. According to CW 1, these repurchase claims
15 already were determined to be valid and should have been paid 18 to 24 months
16 earlier, but the Company delayed payment of them in an effort to cause its
17 previously reported financial results to appear better than they actually were.
18 According to CW 1, by the end of the 2004 fourth quarter, New Century already
19 had a large backlog of valid, unfunded repurchase claims. Accordingly, hundreds
20 of millions of dollars worth of these valid repurchase claims should have been
21 funded prior to the start of the Class Period in May 2005 and the Series B Preferred
22 Stock offering, but were not. As set forth in paragraph 77 above, according to CW
23 3, New Century was “sitting on repurchase requests” hoping to ride out the market
24 and the Company failed to have good internal reporting of repurchase information.
25 In addition, according to the internal New Century documents quoted in
26 paragraphs 78 and 80 and the data provided by the Examiner in paragraph 100
27 above, New Century had a material repurchase claims backlog as of the end of the
28 2006 second quarter and the time of the Series B Preferred Stock offering. The

1 failure to properly account for these outstanding repurchase claims caused material
2 errors in the Company's 2005 year-end and 2006 first and second quarter reported
3 financial results and resulted from material weaknesses in the Company's internal
4 controls at the time the claims were received and processed, but not funded, which
5 included the time of the above statements. In addition, as set forth in paragraph 83
6 above, according to CW 2, New Century, in violation of GAAP, did not include in
7 its Allowance for Repurchase Losses reserve any estimated discount for disposition
8 necessary to report loans repurchased in the 2006 second quarter at fair market
9 value.

10 282. As set forth in paragraphs 91-99 above, the facts revealed by the
11 Examiner's Report demonstrate that "beginning no later than 2004, New Century
12 was receiving repurchase requests related to loans sold outside of the previous 90-
13 day period and it was taking much longer than 90 days to evaluate and process
14 repurchase requests and repurchase loans." In violation of GAAP, "New Century
15 was not reserving, however, for these loans that it might be required to repurchase,
16 and on which it might incur losses and expenses, but for which no reserve was
17 provided." By January 26, 2005, the Examiner found "clear indication that New
18 Century Accounting Department personnel knew that many loans that were
19 ultimately repurchased in 2004 were Backlog Claims. . . . Notwithstanding this
20 information, New Century did nothing to adjust its methodology for estimating the
21 quantity of loans that might need to be repurchased as of the end of a financial
22 reporting period." In addition, at the time of the above-reported 2005 year-end and
23 2006 first and second quarter earnings, New Century "perplexingly" further
24 violated GAAP by failing to reserve for Interest Recapture as set forth in
25 paragraphs 96-97 above and by failing to apply LOCOM methodology consistent
26 with industry practice and the Company's own LOCOM policy before improperly
27 eliminating the LOCOM adjustment entirely for repurchased loans in the 2006
28 second quarter as set forth in paragraph 98 above. As set forth in paragraph 99

1 above, the Examiner quantified the material impact of these GAAP violations as
2 follows: Year-End 2005 (\$21,320,000); Q1 2006 (\$21,455,000); Q2 2006
3 (\$60,515,000). Consistent with the Examiner's Report, New Century's above-
4 quoted descriptions of its Allowance for Repurchase Losses were materially
5 misleading when made as they stated that the Company "occasionally" may
6 repurchase loans after 90 days without disclosing the then-existing repurchase
7 claims backlog.

8 283. As set forth in paragraphs 101-08 above, throughout the Class Period
9 and at the time of the Series B Preferred Stock offering, New Century's reported
10 Residual Interests were materially overstated as these reported Residual Interests
11 failed to account for the Company's progressively decreasing loan quality and
12 underwriting practices, as well as New Century's increasing delinquencies, defaults
13 and default loss severity throughout 2005 and 2006. As set forth in paragraphs
14 106-08 above, the facts revealed by the Examiner's Report demonstrate that New
15 Century's Residual Interests were overstated at the time of the above-reported
16 year-end 2005 and 2006 first and second earnings and at all times throughout
17 2005-06 as "New Century insisted on using unduly low discount rates;" New
18 Century "repeatedly resisted warnings from specialists at KPMG [starting at least
19 for its quarterly review for the first quarter of 2005], who warned that the discount
20 rates New Century was using were below those used by most of its peers;" "New
21 Century relied for far too long on antiquated and flawed internally-developed
22 Excel-based models to value residual interests;" and New Century failed "to adjust
23 its prepayment rates to reflect changing market conditions . . . contrary to the
24 advice it consistently received as far back as the first quarter of 2005 from
25 KPMG's SFG, which repeatedly expressed concern about the Company's use of
26 low prepayment speed assumptions." The Examiner quantified the material impact
27 of these GAAP violations at the time of the offering as follows: Q2 2006
28 (\$15,200,000). Examiner's Report at 383.

1 284. As set forth in paragraphs 194-96 above, the facts revealed by the
2 Examiner's Report demonstrate that that New Century's internal controls suffered
3 from significant deficiencies and material weaknesses at the time of the above-
4 reported 2005 year-end and 2006 first and second quarter internal control
5 certifications and statements and at all times throughout 2005-06 as the result of
6 "deeply-rooted and long-standing failures to establish and monitor adequate
7 internal controls over financial reporting;" including failures to "develop effective
8 policies and procedures for performing accounting estimates requiring the exercise
9 of considerable judgment;" and to "remediate internal control deficiencies that
10 existed at year-end 2004." Among the deficiencies that New Century failed to
11 remedy from year-end 2004 were "key controls surrounding the repurchase reserve
12 estimation process;" "the allowance for loan losses methodology and rationale;"
13 and "controls related to the hedging and derivatives process." "New Century also
14 failed to establish sufficient internal controls with respect to its residual interest
15 valuation process." As demonstrated by the facts obtained by the Examiner (as
16 well as the numerous other facts set forth in paragraphs 262-63 above), New
17 Century also suffered throughout 2005 and 2006 from "significant deficiencies and
18 material weaknesses in Management's internal control structure related to loan
19 quality"

20 285. Accordingly, the material financial misstatements and significant
21 deficiencies and material weaknesses in internal controls relating to the repurchase
22 claims backlog and Residual Interests eventually reported by the Company on
23 February 7, 2007 and thereafter, were in existence at the time of the above
24 statements, rendering them materially misstated when made and at the time of the
25 Series B Preferred Stock offering.

26 286. In addition, as set forth in paragraphs 204-35 above in detail, KPMG's
27 2005 audits of New Century's financial statements and internal controls were not
28 performed in accordance with GAAS as represented by KPMG in the Company's

2005 Form 10-K, which was incorporated by reference into the Series B Preferred Stock offering, rendering the above-quoted statements made by KPMG materially misstated at the time of the Series B Preferred Stock offering.

287. Given these then-existing facts, the generalized risk disclosures included in the Series B Preferred Stock Prospectus, including those regarding the Company's reserves, Residual Interests and financial condition, were not sufficient to insulate Defendants from liability for the material misstatements made at the time of the offering regarding the Company's purported compliance with GAAP; the effectiveness of its internal controls; and KPMG's purported compliance with GAAS, because those statements were materially misstated when made and at the time of the offering.

288. As set forth below, when the adverse disclosures were made and the true facts were revealed after the offering was completed, the price of New Century Series B Preferred Stock declined by over 75%.

VIII. CLAIMS FOR RELIEF UNDER THE SECURITIES ACT

COUNT ONE

For Violations Of Section 11 Of The Securities Act, On Behalf Of Purchasers Of New Century Series A Preferred Stock, Against New Century Officer Defendants Cole, Morrice, Gotschall And Dodge; New Century Director Defendants: Forster, Sachs, Black, Lange, Sandvik, Zona, Alexander And Popejoy; And Underwriter Defendants: Bear Stearns, Deutsche Bank, Piper Jaffray, Stifel Nicolaus, JMP Securities, And Roth Capital

289. Plaintiffs repeat and reallege each and every allegation above as if fully set forth herein. For the purposes of this claim, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

290. This claim is brought pursuant to Section 11 of the Securities Act against New Century Officer Defendants Cole, Morrice, Gotschall and Dodge; New Century Director Defendants: Forster, Sachs, Black, Lange, Sandvik, Zona,

Alexander and Popejoy; and Underwriter Defendants: Bear Stearns, Deutsche Bank, Piper Jaffray, Stifel Nicolaus, JMP Securities and Roth Capital.

291. This claim is brought on behalf of Plaintiff Carl Larson and other members of the Class who purchased or otherwise acquired New Century Series A Preferred Stock issued pursuant and/or traceable to the Series A Preferred Stock Registration Statement and were damaged by acts alleged herein.

292. New Century issued the Series A Preferred Stock pursuant to the Series A Preferred Stock Registration Statement.

293. Defendants Cole, Morrice, Gotschall, Dodge, Forster, Sachs, Black, Lange, Sandvik, Zona and Popejoy each signed the Series A Preferred Stock Registration Statement.

294. As set forth above, at the time the Series A Preferred Stock Registration Statement and the prospectus supplements were filed, Defendants Cole, Morrice, Gotschall, Forster, Sachs, Black, Lange, Zona, Alexander and Popejoy were each directors of New Century.

295. Defendants Bear Stearns, Deutsche Bank, Piper Jaffray, Stifel Nicolaus, JMP Securities and Roth Capital acted as underwriters for the Series A Preferred Stock offering.

296. The Series A Preferred Stock Registration Statement contained untrue statements of material fact, including the financial statements of New Century. In addition, the Series A Preferred Stock Registration Statement omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading, including New Century's violations of GAAP. The facts misstated and omitted would have been material to a reasonable person reviewing the Series A Preferred Stock Registration Statement.

297. Defendants named in this Count owed to Plaintiff and the Class the duty to make a reasonable and diligent investigation of the statements contained in the Series A Preferred Stock Registration Statement, to ensure that the statements

1 contained or incorporated by reference therein were true and that there was no
2 omission to state a material fact required to be stated in order to make the
3 statements contained therein not misleading.

4 298. Defendants did not make a reasonable investigation of the statements
5 contained and incorporated by reference in the Series A Preferred Stock
6 Registration Statement and did not possess reasonable grounds for believing that
7 the Series A Preferred Stock Registration Statement did not contain an untrue
8 statement of material fact or omit to state a material fact required to be stated
9 therein or necessary to make the statements therein not misleading.

10 299. The Underwriter Defendants did not conduct a reasonable
11 investigation of the statements contained in and incorporated by reference in the
12 Series A Preferred Stock Registration Statement and did not possess reasonable
13 grounds for believing that the statements contained therein were true and not
14 materially misstated. In particular, the Underwriter Defendants did not conduct a
15 reasonable investigation into the accuracy of the statements regarding the
16 Company's reported financial performance and internal controls, including New
17 Century's statements regarding underwriting controls and loan quality. The
18 Underwriter Defendants could not simply rely on the work of New Century's
19 auditors because the investing public relies on the underwriters to obtain and verify
20 relevant information and then make sure that important facts are accurately
21 disclosed. Thus, the Underwriter Defendants must conduct their own, independent
22 and reasonable investigation into the accuracy of the Company's financial
23 statements and assessments of internal controls which they were negligent in
24 failing to do sufficiently in connection with the offering.

25 300. Similarly, the Company director Defendants were negligent in failing
26 to conduct a reasonable investigation of the statements contained in the Series A
27 Registration Statement regarding the Company's financial performance and
28 internal controls and did not possess reasonable grounds for believing that the

1 statements contained therein were true and not materially misstated. The
2 Company's directors, through its Audit Committee, failed to conduct their own
3 independent and reasonable investigation into the Company's financial reporting
4 and internal controls until March 2007, well after the offering was completed.

5 301. Among the other facts set forth above, according to the Examiner's
6 Report (at 441), the Audit Committee members of New Century's Board of
7 Directors questioned KPMG's decision to replace audit partner Kinsella with
8 Donovan in early 2005 because Kinsella was viewed as a valued resource while
9 Donovan was new to KPMG and concerns arose as to whether Donovan had a
10 sufficient understanding to the issues facing the sub-prime industry. Although
11 requested by the Audit Committee, KPMG refused to provide another audit partner
12 and the Audit Committee considered, but did not, replace KPMG as outside
13 auditor. The Audit Committee was also on notice of the facts set forth above
14 demonstrating declining underwriting and loan quality at New Century prior to the
15 offering.

16 302. Plaintiff and members of the Class purchased New Century Series A
17 Preferred Stock issued in, or traceable to, the Series A Preferred Stock Registration
18 Statement and were damaged thereby.

19 303. Plaintiff and the Class did not know, nor in the exercise of reasonable
20 diligence could they have known, of the untrue statements of material fact or
21 omissions of material facts in the Series A Preferred Stock Registration Statement
22 when they purchased or acquired the shares.

23 304. By reason of the foregoing, Defendants are liable to Plaintiff and
24 members of the Class for violations of Section 11 of the Securities Act.
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COUNT TWO

**For Violations Of Section 15 Of The Securities Act, On Behalf Of Purchasers
Of New Century Series A Preferred Stock, Against New Century Officer
Defendants Cole, Morrice, Gotschall And Dodge For Control Person Liability
Based On Section 11 And 12(a)(2) Violations By New Century**

305. Plaintiffs repeat and reallege each and every allegation above as if fully set forth herein. For the purposes of this claim, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

306. This claim is brought pursuant to Section 15 of the Securities Act against Defendants Cole, Morrice, Gotschall and Dodge, on behalf of Plaintiff Carl Larson, and other members of the Class who purchased or acquired New Century Series A Preferred Stock issued pursuant and/or traceable to the Series A Preferred Stock Registration Statement and were damaged by acts alleged herein.

307. Although not named as a defendant herein because of its bankruptcy filing, New Century violated Section 11 of the Securities Act by issuing the Series A Preferred Stock Registration Statement which included untrue statements of material fact and omitted to state material facts required to be stated therein or necessary in order to make the statements therein not misleading and violated Section 12(a)(2) of the Securities Act by soliciting the purchase of New Century Series A Preferred Stock by the use of means or instruments of transportation or communication in interstate commerce or of the mails and by means of the Series A Preferred Stock Prospectus which included untrue statements of material fact and omitted to state material facts required to be stated therein or necessary in order to make the statements therein not misleading. The facts misstated and omitted would have been material to a reasonable person reviewing the New Century Series A Preferred Stock Registration Statement and Prospectus.

308. Defendants Cole, Morrice, Gotschall and Dodge were controlling persons of New Century when the Series A Preferred Stock Registration Statement was filed and became effective, due to their senior executive positions therewith;

1 their direct involvement in its day-to-day operations, including its financial
2 reporting and accounting functions; and their signatures on and participation in the
3 preparation and dissemination of the registration statement. Defendants Cole,
4 Morrice, Gotschall and Dodge participated in road shows to solicit Class members'
5 purchases of New Century Series A Preferred Stock by means of the Series A
6 Preferred Stock Prospectus.

7 309. By virtue of the foregoing, Defendants Cole, Morrice, Gotschall and
8 Dodge each had the power to influence and control, and did influence and control,
9 directly or indirectly, the decision making of New Century, including the content of
10 its financial statements and of the Series A Preferred Stock Registration Statement.

11 310. Defendants Cole, Morrice, Gotschall and Dodge acted negligently and
12 without reasonable care regarding the accuracy of the information contained and
13 incorporated by reference in the Series A Preferred Stock Registration Statement
14 and lacked reasonable grounds to believe that such information was accurate and
15 complete in all material respects.

16 311. Plaintiff and members of the Class purchased New Century Series A
17 Preferred Stock issued in, or traceable to, the Series A Preferred Stock Registration
18 Statement and were damaged thereby.

19 312. Plaintiff and the Class did not know, nor in the exercise of reasonable
20 diligence could they have known, of the untrue statements of material fact or
21 omissions of material facts in the Series A Preferred Stock Registration Statement
22 when they purchased or acquired the shares.

23 313. By reason of the foregoing, Defendants Cole, Morrice, Gotschall and
24 Dodge are liable to Plaintiff and members of the Class for violations of Section 15
25 of the Securities Act.
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COUNT THREE

For Violations Of Section 11 Of The Securities Act, On Behalf Of Purchasers Of New Century Series B Preferred Stock, Against New Century Officer Defendants Cole, Morrice, Gotschall And Dodge; New Century Director Defendants Forster, Sachs, Black, Lange, Zona, Alexander And Einhorn; Defendant KPMG; And Underwriter Defendants: Bear Stearns, Morgan Stanley, Stifel Nicolaus, And Jefferies & Co.

314. Plaintiffs repeat and reallege each and every allegation above as if fully set forth herein. For the purposes of this claim, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

315. This claim is brought pursuant to Section 11 of the Securities Act against New Century Officer Defendants Cole, Morrice, Gotschall and Dodge; New Century Director Defendants: Forster, Sachs, Black, Lange, Zona, Alexander and Einhorn; Defendant KPMG; and Underwriter Defendants: Bear Stearns, Morgan Stanley, Stifel Nicolaus and Jefferies & Co.

316. This claim is brought on behalf of Plaintiff Carl Larson and other members of the Class who purchased or otherwise acquired New Century Series B Preferred Stock issued pursuant and/or traceable to the Series B Preferred Stock Registration Statement and were damaged by acts alleged herein.

317. New Century issued Series B Preferred Stock pursuant to the Series B Preferred Stock Registration Statement.

318. Defendants Cole, Morrice, Gotschall, Dodge, Forster, Sachs, Black, Lange and Zona each signed the Series B Preferred Stock Registration Statement.

319. At the time the Series B Preferred Stock Registration Statement and prospectus supplements were filed, Defendants Cole, Morrice, Gotschall, Forster, Sachs, Black, Lange Zona, Alexander and Einhorn were each directors of New Century.

320. Defendant KPMG was the auditor of New Century throughout the Class Period and consented to being named in the Series B Preferred Stock Registration Statement as a party who certified the audited financial statements

1 contained or incorporated by reference therein. KPMG's audit report incorrectly
2 stated that KPMG's 2005 audits were performed in accordance with GAAS and
3 that the Company's financial statements were fairly presented in accordance with
4 GAAP.

5 321. Defendants Bear Stearns, Morgan Stanley, Stifel Nicolaus and
6 Jefferies & Co. acted as underwriters for the Series B Preferred Stock offering.

7 322. As set forth above, the Series B Preferred Stock Registration
8 Statement contained untrue statements of material fact, including the financial
9 statements of New Century. In addition, the Series B Preferred Stock Registration
10 Statement omitted to state material facts required to be stated therein or necessary
11 to make the statements therein not misleading, including New Century's violations
12 of GAAP. The facts misstated and omitted would have been material to a
13 reasonable person reviewing the Series B Preferred Stock Registration Statement.

14 323. Defendants named in this Count owed to Plaintiff and the Class the
15 duty to make a reasonable and diligent investigation of the statements contained in
16 the Series B Preferred Stock Registration Statement, to ensure that the statements
17 contained or incorporated by reference therein were true and that there was no
18 omission to state a material fact required to be stated in order to make the
19 statements contained therein not misleading.

20 324. Defendants did not make a reasonable investigation of the statements
21 contained and incorporated by reference in the Series B Preferred Stock
22 Registration Statement, and did not possess reasonable grounds for believing that
23 the Series B Preferred Stock Registration Statement did not contain an untrue
24 statement of material fact or omit to state a material fact required to be stated
25 therein or necessary to make the statements therein not misleading.

26 325. The Underwriter Defendants did not conduct a reasonable
27 investigation of the statements contained in and incorporated by reference in the
28 Series B Preferred Stock Registration Statement and did not possess reasonable

1 grounds for believing that the statements contained therein were true and not
2 materially misstated. In particular, the Underwriter Defendants did not conduct a
3 reasonable investigation into the accuracy of the statements regarding the
4 Company's reported financial performance, internal controls and underwriting
5 standards and loan quality. The Underwriter Defendants could not simply rely on
6 the work of New Century's auditors because the investing public relies on the
7 underwriters to obtain and verify relevant information and then make sure that
8 important facts are accurately disclosed. Thus, the Underwriter Defendants must
9 conduct their own, independent and reasonable investigation into the accuracy of
10 the Company's financial statements and assessments of internal controls and other
11 statements which they were negligent in failing to do sufficiently in connection
12 with the offering.

13 326. Similarly, the Company director Defendants were negligent in failing
14 to conduct a reasonable investigation of the statements contained in the Series B
15 Preferred Stock Registration Statement regarding the Company's financial
16 performance, internal controls and underwriting standards and loan quality and did
17 not possess reasonable grounds for believing that the statements contained therein
18 were true and not materially misstated. The Company's directors, through its Audit
19 Committee, failed to conduct their own independent and reasonable investigation
20 into the Company's financial reporting and internal controls until March 2007, well
21 after the offering was completed.

22 327. Among the other facts set forth above, one of the Company's directors
23 and Audit Committee members, Defendant Zona, actually drafted a letter on or
24 about December 6, 2005, approximately eight months before the Series B offering,
25 in which he stated he was going to resign from the Board of New Century because
26 of, inter alia, "earnings manipulation," "extremely aggressive income recognition,"
27 and questions regarding New Century's "accounting for loan losses." Examiner's
28 Report at 91. Other New Century Board members persuaded Defendant Zona not

1 to resign (id.), but no independent investigation of the issues he raised occurred
2 until well after the Series B offering was completed. Similarly, Defendant Einhorn
3 charged New Century with “aggressive accounting” during an August 4, 2005
4 meeting with the New Century Board of Directors, approximately one year before
5 the Series B offering. Examiner’s Report at 94. According to the Examiner’s
6 Report (at 98) some members of New Century’s Board of Directors, including
7 Zona and Einhorn, also had expressed doubts about Dodge’s capabilities and
8 competence to be the Company’s CFO. Finally, according to the Examiner’s
9 Report (at 441), the Audit Committee members of New Century’s Board of
10 Directors questioned KPMG’s decision to replace audit partner Kinsella with
11 Donovan in early 2005 because Kinsella was viewed as a valued resource while
12 Donovan was new to KPMG and concerns arose as to whether Donovan had a
13 sufficient understanding to the issues facing the sub-prime industry. Although
14 requested by the Audit Committee, KPMG refused to provide another audit partner
15 and the Audit Committee considered, but did not, replace KPMG as outside
16 auditor. The Audit Committee was also on notice of the facts set forth above
17 demonstrating declining underwriting and loan quality at New Century prior to the
18 offering.

19 328. Defendant KPMG, who consented to the inclusion of its opinions in
20 the August 2006 Series B Preferred Stock Offering Registration Statement,
21 negligently failed to perform its 2005 audits of New Century in a reasonable
22 manner; as set forth above did not comply with the standards of the PCAOB; and,
23 thus, its audit did not constitute a reasonable investigation of whether the
24 Company’s financial statements were presented in compliance with GAAP and
25 management’s assessment of internal controls was properly and accurately
26 presented.
27
28

329. Plaintiff and members of the Class purchased New Century Series B Preferred Stock issued in, or traceable to, the Series B Preferred Stock Registration Statement and were damaged thereby.

330. Plaintiff and the Class did not know, nor in the exercise of reasonable diligence could they have known, of the untrue statements of material fact or omissions of material facts in the Series B Preferred Stock Registration Statement when they purchased or acquired the shares.

331. By reason of the foregoing, Defendants are liable to Plaintiff and members of the Class for violations of Section 11 of the Securities Act.

COUNT FOUR

For Violations Of Section 15 Of The Securities Act, On Behalf Of Purchasers Of New Century Series B Preferred Stock, Against Defendants Cole, Morrice, Gotschall And Dodge For Control Person Liability Based On Section 11 And 12(a)(2) Violations By New Century

332. Plaintiffs repeat and reallege each and every allegation above as if fully set forth herein. For the purposes of this claim, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

333. This claim is brought pursuant to Section 15 of the Securities Act against Defendants Cole, Morrice, Gotschall and Dodge, on behalf of Plaintiff Carl Larson and other members of the Class who purchased or acquired New Century Series B Preferred Stock issued pursuant and/or traceable to the Series B Preferred Stock Registration Statement and were damaged by acts alleged herein.

334. Although not named as a defendant herein because of its bankruptcy filing, New Century violated Section 11 of the Securities Act by issuing the Series B Preferred Stock Registration Statement which included untrue statements of material fact and omitted to state material facts required to be stated therein or necessary in order to make the statements therein not misleading and violated Section 12(a)(2) of the Securities Act by soliciting the purchase of New Century

1 Series B Preferred Stock by the use of means or instruments of transportation or
2 communication in interstate commerce or of the mails and by means of the Series
3 B Preferred Stock Prospectus which included untrue statements of material fact
4 and omitted to state material facts required to be stated therein or necessary in
5 order to make the statements therein not misleading. The facts misstated and
6 omitted would have been material to a reasonable person reviewing the New
7 Century Series B Preferred Stock Registration Statement and Prospectus.

8 335. Defendants Cole, Morrice, Gotschall and Dodge were controlling
9 persons of New Century when the Series B Preferred Stock Registration Statement
10 was filed and became effective, due to their senior executive positions therewith;
11 their direct involvement in its day-to-day operations, including its financial
12 reporting and accounting functions; and their signatures on and participation in the
13 preparation and dissemination of the registration statement. Defendants Cole,
14 Morrice, Gotschall and Dodge participated in road shows to solicit Class members'
15 purchases of Series B Preferred Stock by means of the Series B Preferred Stock
16 Prospectus.

17 336. By virtue of the foregoing, Defendants Cole, Morrice, Gotschall and
18 Dodge each had the power to influence and control, and did influence and control,
19 directly or indirectly, the decision making of New Century, including the content of
20 its financial statements and of the Series B Preferred Stock Registration Statement.

21 337. Defendants Cole, Morrice, Gotschall and Dodge acted negligently and
22 without reasonable care regarding the accuracy of the information contained and
23 incorporated by reference in the Series B Preferred Stock Registration Statement
24 and lacked reasonable grounds to believe that such information was accurate and
25 complete in all material respects.

26 338. Plaintiff and members of the Class purchased New Century Series B
27 Preferred Stock issued in, or traceable to, the Series B Preferred Stock Registration
28 Statement and were damaged thereby.

1 339. Plaintiff and the Class did not know, nor in the exercise of reasonable
2 diligence could they have known, of the untrue statements of material fact or
3 omissions of material facts in the Series B Preferred Stock Registration Statement
4 when they purchased or acquired the shares.

5 340. By reason of the foregoing, Defendants Cole, Morrice, Gotschall and
6 Dodge are liable to Plaintiff and members of the Class for violations of Section 15
7 of the Securities Act.

8 **IX. FACTUAL ALLEGATIONS PERTINENT TO**
9 **CLAIMS FOR RELIEF UNDER THE EXCHANGE ACT**

10 341. Plaintiffs repeat and reallege each of the allegations set forth above
11 (except for those alleging negligence) as if fully set forth herein.

12 342. Plaintiffs, on behalf of themselves and the Class, bring claims set forth
13 below against Defendants Cole, Morrice, Gotschall and Dodge for violations of the
14 Exchange Act for materially false and misleading statements and omissions made
15 throughout the Class Period during their tenures at the Company and against
16 Defendant KPMG for violations of the Exchange Act for materially false and
17 misleading statements and omissions made in connection with its 2005 audit
18 opinions issued on or about March 16, 2006. As alleged herein, these Defendants
19 acted with scienter, acting intentionally or with a deliberate reckless disregard of
20 the true facts, in making or participating in the making of these misstatements and
21 omissions during the Class Period.

X. THE NEW CENTURY OFFICER DEFENDANTS AND DEFENDANT KPMG MADE MATERIALLY FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD³²

A. 2005 First Quarter Statements

343. On May 5, 2005, the first day of the Class Period, the New Century Officer Defendants Cole, Morrice, Gotschall and Dodge issued a press release reporting the Company's earnings results for the first quarter ended March 31, 2005. The Company reported net earnings for the first quarter of \$84.8 million, or \$1.48 per share. The press release contained income statement and balance sheet data purporting to reflect the Company's financial performance and assets and liabilities for the three months ended March 31, 2005 in accordance with GAAP. The press release reported New Century's Residual Interests as of March 31, 2005 at \$143,928,000. The press release further stated:

Delinquencies and losses in the company's mortgage loan portfolio continue to significantly outperform securitizations executed prior to 2003 due primarily to higher credit quality, the strength of our servicing platform and improved underwriting controls and appraisal review process. Delinquency rates and cumulative loss experience for the portfolio are trending better than previously anticipated.

[Emphasis added.]

The press release also contained the following quoted statement from Defendant Cole: "Our first quarter 2005 results provide a solid foundation to deliver record financial results for fiscal 2005 despite a competitive marketplace and a rising interest rate environment."

³² In this section of the Second Amended Complaint, Plaintiffs have underlined all allegedly false and misleading statements and pleaded them in the context in which they were made, grouping them by quarter. For each allegedly false and misleading statement, Plaintiffs then explain, after the statements from the quarter are presented in the context in which they were made, why each statement was materially false and misleading when made by referring only to facts set forth in the paragraphs above that were in existence at the time or prior to the challenged statements. See also Exhibit E.

344. On May 5, 2005, the New Century Officer Defendants also held a conference call with analysts and investors. During the call, Defendants Cole and Dodge reviewed the Company's reported financial results for the quarter ended March 31, 2005. During the conference call, Defendant Cole described New Century's purported areas of "primary emphasis" as: "cost savings initiatives; continued maintenance of our strong credit quality, which is []proving out in portfolio performance; and our loan servicing practices, which are keeping balance loans with low delinquencies and low losses. Those three areas – cost, credit, and servicing – are control business functions that we think are very core to the contributors of long-term profitability, portfolio performance and dividend growth. And we can control those areas, and I think you'll see from first quarter into April [2005] how we are doing on those three matters." (Emphasis added.) Defendant Cole further stated: "Earnings were higher [than] expected due to portfolio losses [that] continued to be lower than expected. As we have been mentioning in prior calls, the delinquency and the loss performance in both our REIT and our taxable sub-portfolios just continues to be better than anticipated." During the conference call, Defendant Dodge presented a slide (made available over the Internet) purporting to demonstrate lower 60+ day delinquency rates for New Century's 2003 and 2004 loans and stated: "Note the dramatically lower delinquency rates for the 2003 and 2004 vintages, which are vintages that are on our balance sheet. This performance reflects a number of factors, including the credit quality of the loans, the impact of servicing the loans on our own platform, and the economic and interest rate environment." (Emphasis added.) Similarly, Cole stated: "The effort started many years ago to improve the credit quality and underwriting standards of the Company and increase the average FICO score is really []proving benefits here in the '03, '04 full performance. The superior credit performance measured by delinquencies or losses is supported by the strong servicing platform of Rich Cimino and his team – is really []proving very, very solid results." (Emphasis

1 added.) When he was asked during a question-and-answer session of the
2 conference call regarding credit performance during the quarter, Defendant Cole
3 again stated:

4 We thought it was quite good measured by the delinquency and the
5 losses. And that's a result of a strategy adopted a number of years ago
6 to move much higher up the FICO scale. So the loans originated '03
7 and '04 that are on our balance sheet, either in the REIT or in the
8 taxable sub, just have characteristics that perform better. [Emphasis
9 added.]

10 345. On or about May 10, 2005, the New Century Officer Defendants Cole,
11 Morrice, Gotschall and Dodge filed the Company's Form 10-Q for the quarter
12 ended March 31, 2005. The first quarter 2005 Form 10-Q contained consolidated
13 balance sheets and consolidated statements of earnings purporting to reflect the
14 Company's financial performance and assets and liabilities for the three months
15 ended March 31, 2005 in accordance with GAAP. The Form 10-Q stated:

16 The Company has prepared the accompanying unaudited condensed
17 consolidated financial statements in accordance with accounting
18 principles generally accepted in the United States of America for
19 interim financial information and with the instructions to Form 10-Q
20 and Rule 10-01 of Regulation S-X. Accordingly, they do not include
21 all of the information and footnotes required by generally accepted
22 accounting principles for complete financial statements. In the
23 opinion of management, all adjustments (consisting of normal
24 recurring accruals) considered necessary for a fair presentation have
25 been included. [Emphasis added.]

26 The first quarter 2005 Form 10-Q was signed by Defendants Cole, Morrice,
27 Gotschall and Dodge.
28

346. The first quarter 2005 Form 10-Q reported New Century's Residual Interests as of March 31, 2005 at \$143,928,000. The first quarter 2005 Form 10-Q purported to describe the Company's "Critical Accounting Policies" including New Century's methods for calculating "Residual Interests in Securitizations" and "Allowance for Repurchase Losses:"

Residual Interests in Securitizations

[T]he Residuals described above are a significant asset of the Company. In determining the value of the Residuals, the Company estimates the future rate of prepayments, prepayment penalties that we will receive, delinquencies, defaults and default loss severity as they affect the amount and timing of estimated cash flows. . . . The Company bases these estimates on historical loss data for the loans, the specific characteristics of the loans and the general economic environment. . . . The Company performs an evaluation of the Residuals quarterly, taking into consideration trends in actual cash flow performance, industry and economic developments, as well as other relevant factors.

* * *

Allowance for Repurchase Losses

Generally, repurchases are required within 90 days from the date the loans are sold. Occasionally, we may repurchase loans after 90 days have elapsed. [Emphasis added.]

347. The first quarter 2005 Form 10-Q stated as follows regarding the Company's underwriting standards:

We originate and purchase primarily first mortgage products nationwide. We focus on lending to individuals whose borrowing needs are generally not fulfilled by traditional financial institutions because they do not satisfy the credit, documentation or other

1 underwriting standards prescribed by conventional mortgage lenders
2 and loan buyers. We originate and purchase loans on the basis of the
3 borrower's ability to repay the mortgage loan, the borrower's
4 historical pattern of debt repayment and the amount of equity in the
5 borrower's property, as measured by the borrower's loan-to-value
6 ratio, or LTV. We have been originating and purchasing subprime
7 loans since 1996 and believe we have developed a comprehensive and
8 sophisticated process of credit evaluation and risk-based pricing that
9 allows us to effectively manage the potentially higher risks associated
10 with this segment of the mortgage industry.

11 * * *

12 We have experienced considerable growth of our interest-only
13 product. During the three months ended March 31, 2005, originations
14 of interest-only loans totaled \$2.7 billion, or 26.7%, of total
15 originations. Interest-only originations during the three months ended
16 March 31, 2004 totaled \$963 million, or 11.4%, of total originations
17 during the period. We believe our strict underwriting guidelines and
18 the stronger credit characteristics of these loans mitigate their
19 perceived higher risk.

20 For the three months ended March 31, 2005, full documentation
21 loans as a percentage of originations totaled \$5.2 billion, or 50.7%,
22 limited documentation loans totaled \$569 million, or 5.6%, and stated
23 documentation loans totaled \$4.5 billion, or 43.7%. . . . We designed
24 our underwriting standards and quality assurance programs to ensure
25 that loan quality is consistent and meets our guidelines, even as the
26 documentation type mix varies. [Emphasis added.]

27 348. The first quarter 2005 Form 10-Q provided the following information
28 regarding New Century's internal controls and procedures:

1 As of March 31, 2005, the end of our first quarter, our management,
2 including our Chief Executive Officer, Vice Chairman – Finance,
3 Chief Financial Officer and President and Chief Operating Officer,
4 has evaluated the effectiveness of our disclosure controls and
5 procedures, as such term is defined in Rule 13a-15(e) promulgated
6 under the Securities Exchange Act of 1934, as amended. Based on
7 that evaluation, our Chief Executive Officer, Vice Chairman –
8 Finance, Chief Financial Officer and President and Chief Operating
9 Officer concluded, as of March 31, 2005, that our disclosure controls
10 and procedures were effective to ensure that information required to
11 be disclosed by us in reports that we file or submit under the
12 Securities Exchange Act of 1934 is recorded, processed, summarized
13 and reported within the time periods specified in the Securities and
14 Exchange Commission rules and forms. There was no change in our
15 internal control over financial reporting during the quarter ended
16 March 31, 2005 that materially affected, or is reasonably likely to
17 materially affect, our internal control over financial reporting.
18 [Emphasis added.]

19 349. Accompanying the first quarter 2005 Form 10-Q as exhibits were
20 certifications signed by Defendants Cole, Morrice, Gotschall and Dodge which
21 stated:

- 22 1. I have reviewed this quarterly report on Form 10-Q of New
23 Century Financial Corporation;
- 24 2. Based on my knowledge, this report does not contain any
25 untrue statement of a material fact or omit to state a material fact
26 necessary to make the statements made, in light of the circumstances
27 under which such statements were made, not misleading with respect
28 to the period covered by this report;

1 3. Based on my knowledge, the financial statements, and other
2 financial information included in this report, fairly present in all
3 material respects the financial condition, results of operations and
4 cash flows of the registrant as of, and for, the periods presented in this
5 report;

6 4. The registrant's other certifying officers and I are responsible
7 for establishing and maintaining disclosure controls and procedures
8 (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and
9 internal control over financial reporting (as defined in Exchange Act
10 Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

11 a) Designed such disclosure controls and procedures, or caused
12 such disclosure controls and procedures to be designed under our
13 supervision, to ensure that material information relating to the
14 registrant, including its consolidated subsidiaries, is made known to us
15 by others within those entities, particularly during the period in which
16 this quarterly report is being prepared;

17 b) Designed such internal control over financial reporting, or
18 caused such internal control over financial reporting to be designed
19 under our supervision, to provide reasonable assurance regarding the
20 reliability of financial reporting and the preparation of financial
21 statements for external purposes in accordance with generally
22 accepted accounting principles;

23 c) Evaluated the effectiveness of the registrant's disclosure
24 controls and procedures and presented in this report our conclusions
25 about the effectiveness of the disclosure controls and procedures, as of
26 the end of the period covered by this report based on such evaluation;
27 and
28

1 d) Disclosed in this report any change in the registrant's
2 internal control over financial reporting that occurred during the
3 registrant's most recent fiscal quarter (the registrant's fourth fiscal
4 quarter in the case of an annual report) that has materially affected, or
5 is reasonably likely to materially affect, the registrant's internal
6 control over financial reporting; and

7 5. The registrant's other certifying officers and I have disclosed,
8 based on our most recent evaluation of internal control over financial
9 reporting, to the registrant's auditors and the audit committee of the
10 registrant's board of directors (or persons performing the equivalent
11 functions):

12 a) All significant deficiencies and material weaknesses in
13 the design or operation of internal control over financial reporting
14 which are reasonably likely to adversely affect the registrant's ability
15 to record, process, summarize and report financial information; and

16 b) Any fraud, whether or not material, that involves
17 management or other employees who have a significant role in the
18 registrant's internal control over financial reporting.

19 * * *

20 In connection with the Quarterly Report of New Century Financial
21 Corporation (the "Company") on Form 10-Q for the period ended
22 March 31, 2005 as filed with the Securities and Exchange
23 Commission on the date hereof (the "Report"), I . . . certify, pursuant
24 to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-
25 Oxley Act of 2002, that, to my knowledge:

26 (1) The Report fully complies with the requirements of
27 section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
28

1 (2) The information contained in the Report fairly presents,
2 in all material respects, the financial condition and results of
3 operations of the Company. [Emphasis added.]

4 350. The above-referenced statements from the New Century Officer
5 Defendants' press release, conference call and Form 10-Q for the first quarter
6 ended March 31, 2005 were materially misstated and omitted to state material facts
7 required therein or necessary to make the statements contained therein not
8 misleading, at all times throughout the Class Period. Contrary to the above-
9 referenced statements, New Century's financial statements for the first quarter
10 ended March 31, 2005 were not presented in accordance with GAAP, the
11 Company's internal controls suffered from significant deficiencies and material
12 weaknesses and New Century did not improve its underwriting controls or loan
13 quality.

14 351. As set forth in paragraphs 137-39, 141, 144, 146, 148, 150, 153-55,
15 158, 161 above, numerous former New Century employees with first-hand
16 knowledge report that contrary to the New Century Officer Defendants' statements
17 on May 5, 2005 regarding purported "higher credit quality," and "improved
18 underwriting controls;" Defendant Cole's statements on May 5, 2005 regarding
19 purported "continued maintenance of [] strong credit quality," and loan
20 "characteristics that perform better;" Defendant Dodge's statements on May 5,
21 2005 regarding the purported "credit quality of the loans;" and the New Century
22 Officer Defendants' statements in the 2005 first quarter 10-Q regarding a purported
23 "comprehensive and sophisticated process of credit evaluation," "strict
24 underwriting guidelines" and "underwriting standards and quality assurance
25 programs to ensure that loan quality is consistent;" and undisclosed to investors,
26 New Century's underwriting practices were actually loosened substantially by the
27 time of these May 5 and 10, 2005 statements so that the Company could continue
28 to reach record mortgage origination volume notwithstanding intense industry

1 competition, rising interest rates, and a softening of the real estate market. Further,
2 the 2005 data set forth in paragraphs 126-35 above establish that New Century's
3 underwriting was loosened precipitously before and during the Class Period, such
4 that its loans became delinquent and were repurchased at substantially higher rates
5 as compared to the loans it made in 2003-04, and with such speed that generic
6 market forces could not be to blame. The data further demonstrate that given its
7 loosened underwriting, New Century was far more likely to issue a sub-prime
8 borrower a mortgage loan than were its peers. According to CWs 3, 5, 6, 8, 11, 13,
9 15, 17, 20, 21, 22, 25 and 28, starting as early as 2003, and progressively from
10 2004-05, New Century began originating riskier and riskier mortgage loans
11 because of increased loan to values, including 80/20 100% financing loans
12 requiring no down payment, and began increasing the amount of stated income
13 loans, which, starting in 2004-05, were being offered to W-2 wage earners who
14 should have been able to verify their stated income, but were not required to.
15 According to CWs 13, 17, 20, 25 and 28, the Company's underwriting was
16 loosened and the Company was issuing "riskier and riskier" mortgage loans
17 beginning as early as 2003, with "heavy pressure" to close loans and operations
18 managers signing off on the approval of riskier loans. Quarterly loan performance
19 data set forth in paragraph 111 further demonstrates a trend of increasing
20 delinquencies from the first quarter of 2004 through the first quarter of 2005. The
21 fact that delinquencies continued to increase thereafter at a dramatic rate further
22 demonstrates that contrary to the New Century Officer Defendants' May 5 and 10,
23 2005 statements, New Century's underwriting was not "strict" or "improved" and
24 did not result in "higher credit quality" loans, but was substantially loosened to
25 produce growing origination volume.

26 352. In addition, as set forth in paragraphs 173-78, 183, 187, 189, 196
27 above, by the time of these statements, the Examiner's Report details facts
28 demonstrating "serious loan quality issues at [New Century] beginning as early as

2004;” numerous “red flags” relating to loan quality; and the failure of New Century’s Senior Management and Board of Directors to devote sufficient attention to improving loan quality until the final quarter of 2006, when it “was too late to prevent the consequences of longstanding loan quality problems in an adversely changing market.” “Rather, New Century continued to focus on generating greater quantities of ever riskier loans, devoting little effort to such basic issues as making sure that the Company’s loan origination and underwriting policies and procedures were followed to avoid kickouts of loans offered for sale.” Contrary to the above statements, New Century “devoted its resources to generating high volumes of loans, with relatively little attention to loan quality” and did not even have any “formal exceptions policy.” The Examiner found these ever-increasing risks to be “a veritable ticking time bomb.” As a result of these findings, the Examiner concluded that the public statements made by New Century regarding the purported credit characteristics of its loans and strict and consistent underwriting guidelines were “not supportable” and without “justifiable basis” when made.

353. As set forth in paragraph 75 above, according to CW 1, New Century had intentionally delayed payment of valid repurchase claims, causing a massive backlog of repurchase claims, 80% of which, or hundreds of millions of dollars worth, were 18 to 24 months old as of September 2006 – meaning that the backlog went back to the 2005 first quarter. According to CW 1, these repurchase claims already were determined to be valid and should have been paid 18 to 24 months earlier, but the Company delayed payment of them in an effort to cause its previously reported financial results to appear better than they actually were. According to CW 1, by the end of the 2004 fourth quarter, New Century already had a large backlog of valid, unfunded repurchase claims. Accordingly, hundreds of millions of dollars worth of these valid repurchase claims should have been funded prior to the start of the Class Period in May 2005, but were not. As set forth in paragraph 77 above, according to CW 3, New Century was “sitting on

1 repurchase requests” hoping to ride out the market and the Company failed to have
2 good internal reporting of repurchase information prior to 2006. In addition,
3 according to the internal New Century document quoted in paragraph 79 above,
4 61% of the Company’s outstanding repurchase claims, or \$167 million worth, had
5 been received by July 31, 2005. The failure to properly account for these
6 outstanding repurchase claims caused material errors in the Company’s 2005 first
7 quarter reported financial results and resulted from material weaknesses in the
8 Company’s internal controls at the time the claims were received and processed,
9 but not funded, which included the time of the above statements. Accordingly, the
10 material financial misstatements and material weaknesses in internal controls
11 relating to the repurchase claims backlog eventually reported by the Company on
12 February 7, 2007 and, thereafter, were in existence at the time of the above
13 statements, rendering them materially false and misleading when made.

14 354. As set forth in paragraphs 91-93, 96-97 above, the facts revealed by
15 the Examiner’s Report further demonstrate that “beginning no later than 2004,
16 New Century was receiving repurchase requests related to loans sold outside of the
17 previous 90-day period and it was taking much longer than 90 days to evaluate and
18 process repurchase requests and repurchase loans.” In violation of GAAP, “New
19 Century was not reserving, however, for these loans that it might be required to
20 repurchase, and on which it might incur losses and expenses, but for which no
21 reserve was provided.” By January 26, 2005, the Examiner found “clear indication
22 that New Century Accounting Department personnel knew that many loans that
23 were ultimately repurchased in 2004 were Backlog Claims. . . . Notwithstanding
24 this information, New Century did nothing to adjust its methodology for estimating
25 the quantity of loans that might need to be repurchased as of the end of a financial
26 reporting period.” In addition, at the time of the above-reported 2005 first quarter
27 earnings and at all times throughout 2005, New Century “perplexingly” further
28 violated GAAP by failing to reserve for Interest Recapture as set forth in

1 paragraphs 96-97 above. Consistent with the Examiner's Report, New Century's
2 above-quoted description of its Allowance for Repurchase Losses was materially
3 misleading when made as it stated that the Company "occasionally" may
4 repurchase loans after 90 days without disclosing the then-existing repurchase
5 claims backlog.

6 355. As set forth in paragraphs 106-08 above, the facts revealed by the
7 Examiner's Report demonstrate that New Century's Residual Interests were
8 overstated at the time of the above-reported 2005 first quarter earnings and at all
9 times throughout 2005-06 as "New Century insisted on using unduly low discount
10 rates;" New Century "repeatedly resisted warnings from specialists at KPMG
11 [starting at least for its quarterly review for the first quarter of 2005], who warned
12 that the discount rates New Century was using were below those used by most of
13 its peers;" "New Century relied for far too long on antiquated and flawed
14 internally-developed Excel-based models to value residual interests;" and New
15 Century failed "to adjust its prepayment rates to reflect changing market conditions
16 . . . contrary to the advice it consistently received as far back as the first quarter of
17 2005 from KPMG's SFG, which repeatedly expressed concern about the
18 Company's use of low prepayment speed assumptions."

19 356. As set forth in paragraphs 194-96 above, the facts revealed by the
20 Examiner's Report demonstrate that that New Century's internal controls suffered
21 from significant deficiencies and material weaknesses at the time of the above-
22 reported 2005 first quarter internal control certifications and statements and at all
23 times throughout 2005-06 as the result of "deeply-rooted and long-standing
24 failures to establish and monitor adequate internal controls over financial
25 reporting;" including failures to "develop effective policies and procedures for
26 performing accounting estimates requiring the exercise of considerable judgment;"
27 and to "remediate internal control deficiencies that existed at year-end 2004."
28 Among the deficiencies that New Century failed to remedy from year-end 2004

1 were “key controls surrounding the repurchase reserve estimation process;” “the
2 allowance for loan losses methodology and rationale;” and “controls related to the
3 hedging and derivatives process.” “New Century also failed to establish sufficient
4 internal controls with respect to its residual interest valuation process.” As
5 demonstrated by the facts obtained by the Examiner (as well as the numerous other
6 facts set forth in paragraphs 351-52 above), New Century also suffered throughout
7 2005 (and 2006) from “significant deficiencies and material weaknesses in
8 Management’s internal control structure related to loan quality”

9 **B. 2005 Second Quarter Statements**

10 357. On August 4, 2005, the New Century Officer Defendants Cole,
11 Morrice, Gotschall and Dodge issued a press release reporting the Company’s
12 earnings results for the second quarter ended June 30, 2005. The Company
13 reported net earnings for the second quarter of \$95.1 million, or \$1.65 per share.
14 The press release contained income statement and balance sheet data purporting to
15 reflect the Company’s financial performance and assets and liabilities for the three
16 months and six months ended June 30, 2005 in accordance with GAAP. The press
17 release reported New Century’s Residual Interests as of June 30, 2005 at
18 \$145,563,000. The press release also contained the following quoted statement
19 from Defendant Cole: “In today’s challenging environment, we are very pleased to
20 report a strong second quarter 2005 delivering EPS of \$1.65, an 11.5 percent
21 increase compared with \$1.48 for the first quarter of this year.”

22 358. On August 4, 2005, the New Century Officer Defendants also held a
23 conference call with analysts and investors. During the call, Defendants Cole and
24 Dodge reviewed the Company’s reported financial results for the quarter ended
25 June 30, 2005. During the conference call, Defendant Cole stated: “We’re very
26 proud of the strict underwriting guidelines, the risk management discipline that we
27 have.” (Emphasis added.) Defendant Cole further stated:
28

1 So what are we focusing on? Well, first and foremost, we're a Real
2 Estate Investment Trust, we'll continue to grow the loan portfolio as
3 Patti described in her comments, and we'll continue to maintain strict
4 underwriting and risk management disciplines. I think you can see
5 from the portfolio that we've created at the REIT, plus the
6 performance of the taxable REIT subsidiary, which goes back more
7 than a year and a half to two years, that there is a very high quality
8 source of loans that go into the REIT portfolio. We've maintained
9 that we've tried to be equal in what we sell in the cash market and
10 what we put in the portfolio, and I think from loss assumptions
11 delivered to date, or actual losses, we're delivering on that
12 commitment. [Emphasis added.]

13 359. On or about August 9, 2005, the New Century Officer Defendants
14 Cole, Morrice, Gotschall and Dodge filed the Company's Form 10-Q for the
15 quarter ended June 30, 2005. The second quarter 2005 Form 10-Q contained
16 consolidated balance sheets and consolidated statements of earnings purporting to
17 reflect the Company's financial performance and assets and liabilities for the three
18 months ended June 30, 2005 in accordance with GAAP. The Form 10-Q stated:

19 The Company has prepared the accompanying unaudited condensed
20 consolidated financial statements in accordance with accounting
21 principles generally accepted in the United States of America for
22 interim financial information and with the instructions to Form 10-Q
23 and Rule 10-01 of Regulation S-X. Accordingly, they do not include
24 all of the information and footnotes required by generally accepted
25 accounting principles for complete financial statements. In the
26 opinion of management, all adjustments (consisting of normal
27 recurring accruals) considered necessary for a fair presentation have
28 been included. [Emphasis added.]

1 The second quarter 2005 Form 10-Q was signed by Defendants Cole, Morrice,
2 Gotschall and Dodge.

3 360. The second quarter 2005 Form 10-Q reported New Century's Residual
4 Interests as of June 30, 2005 at \$145,563,000. The second quarter 2005 Form 10-
5 Q purported to describe the Company's "Critical Accounting Policies" including
6 New Century's methods for calculating "Residual Interests in Securitizations" and
7 "Allowance for Repurchase Losses:"

8 *Residual Interests in Securitizations*

9 [T]he Residuals described above are a significant asset of the
10 Company. In determining the value of the Residuals, the Company
11 estimates the future rate of prepayments, prepayment penalties that we
12 will receive, delinquencies, defaults and default loss severity as they
13 affect the amount and timing of estimated cash flows. . . . The
14 Company bases these estimates on historical loss data for the loans,
15 the specific characteristics of the loans and the general economic
16 environment. . . . The Company performs an evaluation of the
17 Residuals quarterly, taking into consideration trends in actual cash
18 flow performance, industry and economic developments, as well as
19 other relevant factors.

20 * * *

21 *Allowance for Repurchase Losses*

22 Generally, repurchases are required within 90 days from the
23 date the loans are sold. Occasionally, we may repurchase loans after
24 90 days have elapsed. [Emphasis added.]

25 361. The second quarter 2005 Form 10-Q stated as follows regarding the
26 Company's underwriting standards:

27 We originate and purchase primarily first mortgage products
28 nationwide. We focus on lending to individuals whose borrowing

1 needs are generally not fulfilled by traditional financial institutions
2 because they do not satisfy the credit, documentation or other
3 underwriting standards prescribed by conventional mortgage lenders
4 and loan buyers. We originate and purchase loans on the basis of the
5 borrower's ability to repay the mortgage loan, the borrower's
6 historical pattern of debt repayment and the amount of equity in the
7 borrower's property, as measured by the borrower's loan-to-value
8 ratio, or LTV. We believe we have developed a comprehensive and
9 sophisticated process of credit evaluation and risk-based pricing that
10 allows us to effectively manage the potentially higher risks associated
11 with this segment of the mortgage industry.

12 * * *

13 We have experienced considerable growth of our interest-only
14 product. During the six months ended June 30, 2005, originations of
15 interest-only loans totaled \$7.8 billion, or 33.0%, of total originations.
16 Interest-only originations during the six months ended June 30, 2004
17 totaled \$3.5 billion, or 16.9%, of total originations during the period.
18 We believe our stricter underwriting guidelines and the stronger credit
19 characteristics of these loans mitigate their perceived higher risk.

20 * * *

21 For the six months ended June 30, 2005, full documentation
22 loans as a percentage of originations totaled \$12.3 billion, or 52.1%,
23 limited documentation loans totaled \$923.0 million, or 3.9%, and
24 stated documentation loans totaled \$10.4 billion, or 44.0%. . . . We
25 designed our underwriting standards and quality assurance programs
26 to ensure that loan quality is consistent and meets our guidelines, even
27 as the documentation type mix varies. [Emphasis added.]
28

1 362. The second quarter 2005 Form 10-Q provided the following
2 information regarding New Century's internal controls and procedures:

3 As of June 30, 2005, the end of our second quarter, our management,
4 including our Chief Executive Officer, Vice Chairman – Finance,
5 Chief Financial Officer and President and Chief Operating Officer,
6 has evaluated the effectiveness of our disclosure controls and
7 procedures, as such term is defined in Rule 13a-15(e) promulgated
8 under the Securities Exchange Act of 1934, as amended. Based on
9 that evaluation, our Chief Executive Officer, Vice Chairman –
10 Finance, Chief Financial Officer and President and Chief Operating
11 Officer concluded, as of June 30, 2005, that our disclosure controls
12 and procedures were effective to ensure that information required to
13 be disclosed by us in reports that we file or submit under the
14 Securities Exchange Act of 1934 is recorded, processed, summarized
15 and reported within the time periods specified in the Securities and
16 Exchange Commission rules and forms. There was no change in our
17 internal control over financial reporting during the quarter ended June
18 30, 2005 that materially affected, or is reasonably likely to materially
19 affect, our internal control over financial reporting. [Emphasis
20 added.]

21 363. Accompanying the second quarter 2005 Form 10-Q as exhibits were
22 certifications signed by Defendants Cole, Morrice, Gotschall and Dodge in the
23 form set forth in paragraph 349 above.

24 364. On September 6-7, 2005, New Century Officer Defendants Gotschall
25 and Dodge participated in Investor Roundtables with analysts and investors.
26 During the meetings, Defendants Gotschall and Dodge reviewed the Company's
27 reported financial results and business strategy. During the meetings, Defendant
28 Gotschall discussed New Century's Residual Interests and stated: "And while we

1 know that investors are concerned about residual assets, we do book them
2 conservatively. We've been through that before.” (Emphasis added.) Gotschall
3 further stated: “We use very conservative assumptions as we've been going
4 through in valuing that residual asset. . . . [T]he residual asset that's created is
5 relatively small and we book that with very conservative assumptions.” (Emphasis
6 added.) During the meetings, Gotschall also reviewed the Company's
7 underwriting standards. He stated that back in 1998-99 credit standards had “really
8 eroded [a]nd I don't think that's happened this time in our business. In fact, we use
9 an automated underwriting system so that we can make sure that that doesn't
10 happen.” (Emphasis added.) Gotschall further stated:

11 You take into account that I really believe the losses that we
12 saw back in '98 and '99 were the result of credit decisions. I don't
13 think we have seen the lightening and loosening of credit this time.
14 We use an automated underwriting system. So we cannot do that.
15 And I think what happened the last time around everybody had
16 loosened their guidelines, and we just made a lot of bad loans, and
17 that is why the performance suffered. I think there is a much better
18 borrower this time. [Emphasis added.]

19 During the meetings, Gotschall also stated that it was a “myth” that New Century
20 focused “on volume and not profits.” Gotschall added:

21 Please don't imply by anything that we say that the housing bubble
22 doesn't concern us; the rising interest rates don't concern us; that the
23 industry competition and the players in the market don't concern us.
24 But we have been through cycles before and we actually, especially
25 from the finance perspective, we get excited about this because this is
26 the time that we get to put better discipline into our business from
27 what exists during the really good times. [Emphasis added.]
28

1 365. The above-referenced statements from the New Century Officer
2 Defendants' press release, conference call and Form 10-Q for the second quarter
3 ended June 30, 2005 and September 6-7, 2005 Investor Roundtables were
4 materially misstated and omitted to state material facts required therein or
5 necessary to make the statements contained therein not misleading, at all times
6 throughout the Class Period. Contrary to the above-referenced statements, New
7 Century's financial statements for the second quarter ended June 30, 2005 were not
8 presented in accordance with GAAP, the Company's internal controls suffered
9 from significant deficiencies and material weaknesses and New Century did not
10 maintain "strict underwriting and risk management disciplines," a "comprehensive
11 and sophisticated process of credit evaluation," "strict underwriting guidelines" or
12 "underwriting standards and quality assurance programs to ensure that loan quality
13 is consistent," originate "very high quality source of loans," mitigate current real
14 estate market conditions by putting "better discipline into [its] business," or book
15 its Residual Interests "conservatively" with "very conservative" assumptions.

16 366. As set forth in paragraphs 137-39, 141, 144, 146, 148, 150, 153-55,
17 158, 161 above, numerous former New Century employees with first-hand
18 knowledge report that contrary to Defendant Cole's statements on August 4, 2005
19 regarding purportedly maintaining "strict underwriting and risk management
20 disciplines" and originating "very high quality source of loans," the New Century
21 Officer Defendants' statements in the 2005 second quarter 10-Q regarding a
22 purported "comprehensive and sophisticated process of credit evaluation," "strict
23 underwriting guidelines" and "underwriting standards and quality assurance
24 programs to ensure that loan quality is consistent," and Defendant Gotschall's
25 statements on September 6-7, 2005 regarding purportedly mitigating current real
26 estate market conditions by putting "better discipline into [its] business" and
27 undisclosed to investors, New Century's underwriting practices were actually
28 loosened substantially by the time of these statements so that the Company could

1 continue to reach record mortgage origination volume notwithstanding intense
2 industry competition, rising interest rates, and a softening of the real estate market.
3 Further, the 2005 data set forth in paragraphs 126-35 above establish that New
4 Century's underwriting practices loosened precipitously before and during the
5 Class Period, such that its loans became delinquent and were repurchased at
6 substantially higher rates as compared to the loans it made in 2003-04, and with
7 such speed that generic market forces could not be to blame. The data further
8 demonstrate that given its loosened underwriting, New Century was far more likely
9 to issue a sub-prime borrower a mortgage loan than were its peers. According to
10 CWs 3, 5, 6, 8, 11, 13, 15, 17, 20, 21, 22, 25 and 28, as early as 2003, and
11 progressively from 2004-05, New Century began originating riskier and riskier
12 mortgage loans because of increased loan to values, including 80/20 100%
13 financing loans requiring no down payment, and began increasing the amount of
14 stated income loans, which, starting in 2004-05, were being offered to W-2 wage
15 earners who should have been able to verify their stated income, but were not
16 required to. According to CWs 13, 17, 20, 25 and 28, the Company's underwriting
17 was loosened and the Company was issuing "riskier and riskier" mortgage loans
18 beginning as early as 2003, with "heavy pressure" to close loans and operations
19 managers signing off on the approval of riskier loans. Quarterly loan performance
20 data set forth in paragraph 111 further demonstrates a trend of increasing
21 delinquencies from the first quarter of 2004 through the second quarter of 2005.
22 The fact that delinquencies continued to increase thereafter at a dramatic rate
23 further demonstrates that contrary to the New Century Officer Defendants' August
24 4 and 9, 2005 and September 6-7, 2005 statements, New Century's underwriting
25 was not "strict" and did not result in "very high quality" loans, but was
26 substantially loosened to produce growing origination volume.

27 367. In addition, as set forth in paragraphs 173-78, 183, 187, 189, 196
28 above, by the time of these statements, the Examiner's Report details facts